

# Stockholm Tax Alert 18 September 2013: Budget Bill for 2014

18th September 2013

## Jurisdiction : Sweden

The Swedish Government has today published the Budget Bill for 2014 (the "Bill"). Some of the proposed changes have already been published. We mention in the following the most important of already presented proposals, but we also draw attention to proposed changes that have not been given as much attention, but which should be of relevance. The rules and amendments are proposed to take effect as of 1 January 2014, unless otherwise stated.

The Government proposes to strengthen the "in-job tax credit", which includes increased income tax brackets for state income tax (from SEK 36,158 / month to SEK 37,417 / month) and decreased taxes for pensioners.

Special income tax for people non-residents (SINK) is proposed to be reduced from 25% to 20%.

The proposed changes to the tax rules on closely held companies, often referred to as the "3:12-rules", are in line with previous proposals, save for some adjustments. The 3:12-rules are rather complex tax rules entailing i.a. that dividend distributions up to a certain threshold are taxed at a rate of 20%, while dividends above that amount are taxed as salary (i.e. at a tax rate of up to approx. 58%). The current rules are favourable for closely held companies with a large number of employees, such as large partner-owned consultancy firms, since the threshold for applying the 20% tax rate depends mainly on the size the firm's total salary payments (the "salary base"). As a consequence of the current rules being held as too generous, various changes are proposed in order to limit the use of the salary base. One of the proposed changes is that only qualifying shareholders owning 4% or more of the shares in the closely held company would be able to use the "salary base" when calculating the threshold amount subject to the 20% tax rate.

The Government proposes reduced social security charges for people who work in research and development (R&D), by way of a deduction of 10% of the basis for social security. A cap on the deduction is proposed, entailing that the total deduction for all persons involved in R&D within a group may not exceed SEK 230,000.

The application and notification requirements to the Tax Agency in connection with transfer of property that is voluntarily registered for VAT are proposed to be abolished, in most cases. This should simplify the VAT administration in connection with such transfers.

The Government proposes major changes to the taxation of the non-profit sector. The proposal includes, i.a. new definitions of what constitutes public benefit (Sw. allmännyttigt ändamål), requirements on non-profit organisations' operations (Sw. verksamhetskrav) and requirements on the use of revenues in non-profit organisations (Sw. fullföljdskrav).

The Government also proposes to abolish the current tax exemption for property income from special buildings (Sw. specialbyggnader) and certain farm units.

In addition to the above, changes have also been suggested to the rules regarding tax on energy, advertising and alcohol. Some of these changes will come into force on 1 January 2014, while most of the changes will come into force on 1 April 2014.

The Bill mentions that an investigation is carried out regarding the possibilities of a control system for the tax procedures in the construction sector. The report is due on 31 January 2014. The Government has furthermore commissioned the Tax Agency to evaluate, from a tax avoidance perspective, the changed definition of business activity that was made in 2009 (regarding "F-tax"). The report is due on 15 October 2013.

The Government intends to review the rules on options to key employees. The Government also commissions the Tax Agency to review the requirement in respect of transfer pricing documentation. This review aims at evaluating the functionality of the requirement and to analyse if the rules can be simplified.

The Bill mentions the Government's support of the OECD's work on tax evasion, BEPS-project (Base Erosion and Profit Shifting), and that it is proposed that Sweden will participate in financing the project. Furthermore, the Bill states that Sweden is negotiating a FATCA agreement with the U.S. The negotiations are conducted with the objective that an agreement shall be in force from 1 July 2014. The Government intends to give the parliament

more information further along in the process.

#### Contact information



**Mats Anderson**



**Ebba Perman Borg**